

## MEETING AGENDA

**Meeting:** Finance Committee  
**Date:** October 21, 2021  
**Time:** 10:00 AM  
**Location:** online via webinar and teleconference  
**Teleconference:** (844) 740-1264 / Meeting Number: 2464 553 7169 # / Attendee Number: #  
<https://alaskamentalthtrust.org/>  
**Trustees:** Anita Halterman (Chair), Verné Boerner, Rhonda Boyles, Chris Cooke, Brent Fisher, John Sturgeon

Thursday, October 21, 2021

Page No.

<b>10:00</b>	<b><u>Call Meeting to Order (Anita Halterman, Chair)</u></b> Roll Call / Announcements Approve Agenda / Ethics Disclosure Approve Minutes • July 29, 2021	4
<b>10:05</b>	<b><u>Statutory Advisor Update</u></b> Angela Rodell, Chief Executive Officer, Alaska Permanent Fund Corporation	11
<b>10:50</b>	<b><u>Dept of Revenue / Treasury Update</u></b> Steve Sikes, Investment Officer, Division of Investments, Department of Revenue	19
<b>11:30</b>	<b><u>Lunch</u></b>	
<b>12:15</b>	<b><u>Staff Report Items</u></b> CEO Finance Report FY21 Performance Review – Carol Howarth, CFO FY22 Q-1 Financial Dashboard – Carol Howarth, CFO/Kat Roch, Controller	37 hand-out
<b>1:15</b>	<b><u>Approvals</u></b> FY22 Payout – Carol Howarth, CFO TADA Transfer Limit – Carol Howarth, CFO	43 44
<b>1:45</b>	<b><u>Adjourn</u></b>	

## Future Meeting Dates

### Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – October 2021)

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- |                                |                             |                        |
|--------------------------------|-----------------------------|------------------------|
| • Audit & Risk Committee       | October 20, 2021            | (Wed)                  |
| • Resource Mgt Committee       | October 20, 2021            | (Wed)                  |
| • Program & Planning Committee | October 20, 2021            | (Wed)                  |
| • Finance Committee            | October 21, 2021            | (Thu)                  |
| • Full Board of Trustee        | November 17-18, 2021        | (Wed, Thu) – Anchorage |
|                                |                             |                        |
| • Audit & Risk Committee       | January 5, <b>2022</b>      | (Wed)                  |
| • Finance Committee            | January 5, <b>2022</b>      | (Wed)                  |
| • Resource Mgt Committee       | January 5, <b>2022</b>      | (Wed)                  |
| • Program & Planning Committee | January 6, <b>2022</b>      | (Thu)                  |
| • Full Board of Trustee        | January 26-27, <b>2022</b>  | (Wed, Thu) – Juneau    |
|                                |                             |                        |
| • Audit & Risk Committee       | April 20, <b>2022</b>       | (Wed)                  |
| • Finance Committee            | April 20, <b>2022</b>       | (Wed)                  |
| • Resource Mgt Committee       | April 20, <b>2022</b>       | (Wed)                  |
| • Program & Planning Committee | April 21, <b>2022</b>       | (Thu)                  |
| • Full Board of Trustee        | May 25, <b>2022</b>         | (Wed) – TBD            |
|                                |                             |                        |
| • Audit & Risk Committee       | July 26, <b>2022</b>        | (Tue)                  |
| • Finance Committee            | July 26, <b>2022</b>        | (Tue)                  |
| • Resource Mgt Committee       | July 26, <b>2022</b>        | (Tue)                  |
| • Program & Planning Committee | July 27-28, <b>2022</b>     | (Wed, Thu)             |
| • Full Board of Trustee        | August 24-25, <b>2022</b>   | (Wed, Thu) – Anchorage |
|                                |                             |                        |
| • Audit & Risk Committee       | October 19, <b>2022</b>     | (Wed)                  |
| • Finance Committee            | October 19, <b>2022</b>     | (Wed)                  |
| • Resource Mgt Committee       | October 19, <b>2022</b>     | (Wed)                  |
| • Program & Planning Committee | October 20, <b>2022</b>     | (Thu)                  |
| • Full Board of Trustee        | November 16-17, <b>2022</b> | (Wed, Thu) – Anchorage |

## Future Meeting Dates

### Statutory Advisory Boards

(Updated – October 2021)

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#### **Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse**

AMHB: <http://dhss.alaska.gov/amhb/Pages/default.aspx>

ABADA: <http://dhss.alaska.gov/abada/Pages/default.aspx>

Executive Director: Bev Schoonover, (907) 465-5114, [bev.schoonover@alaska.gov](mailto:bev.schoonover@alaska.gov)

- Executive Committee – monthly via teleconference (Fourth Wednesday of the Month)
- Fall Meeting: October 12-13, 2021 / via Zoom

#### **Governor's Council on Disabilities and Special Education**

GCDSE: <http://dhss.alaska.gov/gcdse/Pages/default.aspx>

Acting Executive Director: Myranda Walso, (907)269-8990, [myranda.walso@alaska.gov](mailto:myranda.walso@alaska.gov)

- Winter Meeting: January 31 – February 1, 2022 / location TBD

#### **Alaska Commission on Aging**

ACOA: <http://dhss.alaska.gov/acoa/Pages/default.aspx>

Executive Director: Lisa Morley, (907) 465-4879, [lisa.morley@alaska.gov](mailto:lisa.morley@alaska.gov)

- Winter Meeting: November 16-17, 2021 / location TBD

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**July 29, 2021**

**9:00 a.m.**

**Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120  
Anchorage, Alaska**

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**Trustees Present:**

Anita Halterman, Chair  
Chris Cooke  
John Sturgeon  
Brent Fisher  
Verne' Boerner

**Trust Staff Present:**

Mike Abbott  
Steve Williams  
Carol Howarth  
Miri Smith-Coolidge  
Kelda Barstad  
Luke Lind  
Michael Baldwin  
Katie Baldwin-Johnson  
Jimael Johnson  
Valette Keller  
Allison Biastock  
Kat Roch

**Trust Land Office:**

Wyn Morrison  
Sarah Morrison  
Jusdi Doucet  
David MacDonald  
Katie Vachris

**Also participating:**

Erin O'Boyle; Gail McDonough.

## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She stated that Rhonda Boyles was excused and that there was a quorum. She asked for any announcements. There being none, she moved to the approval of the agenda.

### APPROVAL OF THE AGENDA

CHAIR HALTERMAN asked for a motion.

**MOTION:** A motion to approve the agenda was made by TRUSTEE COOKE; seconded by TRUSTEE BOERNER.

*There being no objection, the MOTION was APPROVED.*

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to approval of the minutes of March 5, 2021.

### APPROVAL OF THE MINUTES

**MOTION:** A motion to approve the minutes of March 5, 2021, was made by TRUSTEE COOKE; seconded by TRUSTEE BOERNER.

*There being no objection, the MOTION was APPROVED.*

**MOTION:** A motion to approve the minutes of April 21, 2021, was made by TRUSTEE COOKE; seconded by TRUSTEE BOERNER.

*There being no objection, the MOTION was APPROVED*

### STAFF REPORT

MR. ABBOTT began with the legislative audit update, which was still in the confidential stage. He believed it was appropriate to recognize that through the interaction with the auditor, the research that had followed, and the consultation with the Department of Law, that there should be a description of a certain category of the assets differently than what was done in the past. He added that Ms. Howarth would go through this when looking at the dashboard. He continued that this means that if the assets in the portfolio gains' value is not yet realized, the earnings need to be treated differently than the realized earnings. He noted that this distinction had not been made previously, and it is critical to ensure the right process in determining what is spendable income versus what is principal or the permanently invested assets. This will flavor the status of the reserves and will affect the inflation-proofing. He asked Ms. Howarth to go through the dashboard.

MS. HOWARTH went through the dashboard, which was a summary of what, in the private sector, would be an income statement and then the balance sheet. She continued with the expenditures, and then looked at Trust receipts or revenues. The bottom section was the assets. She emphasized that the numbers were preliminary. The final numbers will come from different State agencies and will have solid financials. She continued explaining and answering questions

as she went through the sections and the numbers. She also discussed the Trust Resources, the total reserves and reserve targets.

MR. ABBOTT moved to inflation-proofing and noted the prompt action related to it because of what was learned about the unrealized gains and losses. He brought this back to considering a motion that would direct the Trust to transfer only the amount of reserves that are available to inflation-proof and still maintain a reserves target of 400 percent.

**MOTION:** A motion that the Finance Committee recommends that the Board of Trustees approve the designation of \$61,231,300 of Mental Health Trust earnings as principal for the purpose of inflation-proofing was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Sturgeon, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Halterman, yes.)*

MR. ABBOTT moved to the revenue forecast and the FY22 revenue estimate, and asked Ms. Howarth to continue.

MS. HOWARTH stated that the FY22 revenue estimate based the budget on revenue projections. Coming into FY22, there are the preliminary FY21 numbers to roll into the four-year averages of funding. The first category was the primary source and is the four-year average of managed funds at the Department of Revenue and at the Permanent Fund Corporation. The next three categories are the appropriations that have lapsed; the spendable income from the Trust Land Office; and last is interest earned from the TADA, the Central Facility Fund and the checking account. She added that the budget was based on the estimated payout from a year ago and did not anticipate the high runup of the market, which provided more than anticipated.

MR. ABBOTT moved to amending the FY22 budget, as recommended by staff.

MS. HOWARTH looked at the FY23 revenue estimates and stated that the planned figures for the Trust Land Office income, case management interest and lost appropriations were incorporated into FY23. She then did a quick update regarding the commercial real estate refinancing.

MR. ABBOTT clarified that this was an update on the real-estate refinancing. The trustees authorized the CFO to execute on this, and it will not come back for further approvals. He added that it is expected that the terms will be agreed to and negotiated in the next week or two, and the closing would take place shortly thereafter.

CHAIR HALTERMAN called a break.

(Break.)

CHAIR HALTERMAN stated that there is a planning item for commercial real estate and asked Ms. Howarth to introduce the panelists.

MS. HOWARTH happily introduced Erin O'Boyle and Gail McDonough with Harvest Capital.

She stated that Ms. O'Boyle is a principal of Harvest Capital, which was founded in 2004. They were engaged by the Trust in October of 2019 as an independent financial real estate adviser. She continued that their goal was to advise the Trust and the Trust Land Office on best practices, as well as to do an annual evaluation for the Board of Trustees in terms of performance of the assets. She added that Ms. O'Boyle has an engineering degree from MIT, and Ms. McDonough spent a year as an operating officer with a Boston equivalent with some of the beneficiary organizations. Both have added a lot of value to the Trust.

MS. O'BOYLE thanked the Trust for having them here to present their annual report, and continued that they enjoy the opportunity to serve the Alaska Mental Health Trust Authority. She stated that it was a standard approach to retain an independent real estate adviser which assists institutions in getting a fiduciary review of the assets and some insight. She continued that some of the services include strategic services, valuations, wholesale analysis, and some asset management consulting. They are also a resource to the Trust and the TLO on anything regarding the real estate holdings. She moved to a snapshot of the commercial real estate performance and indicated that, overall, it was a very good performance with a strong, durable income. That is a great hallmark of a real estate portfolio. There are high-quality suburban office and industrial assets that are performing well overall.

MS. McDONOUGH stated that it was important to provide confidence that the tenants will meet the obligations and pay their rent. In lease rollover, the goal is to also have balanced, standard lease expirations across the assets, minimizing the impact on cash flow. She talked about debt expiration and looked at performance on a valuation basis, which is very important.

MS. O'BOYLE continued that one of the important things to do in commercial real estate is to benchmark performance against a standard. The recognized industry standard in commercial real estate is the NCREIF NPI index, which she explained. She added that it was reliable, well done, tried and true, and gives a comparison against peers; the underlying assets are a bit different, but the best available. She highlighted the different opportunities and challenges of the different sectors of real estate. She summarized the sectors and stated that industrial is leading at 7 percent availability nationally, with one of the driving forces being e-commerce. She moved to the major portion of the report, which was the wholesale analysis, and stated that every year a formal wholesale analysis is performed based on doing independent valuations, assessing the asset conditions, the market conditions, and alternatives.

MS. McDONOUGH went through the significant accomplishments and challenges in the portfolio.

MS. O'BOYLE gave a brief update on the best practices. Harvest is an adviser as a resource, and a best practices analysis was completed, including renegotiating the management and recent agreements with VCR, which manages the Texas assets. We also have monthly calls with the TLO. She continued that things in-process include renegotiating the leasing and management agreement at Colliers. She stated that there are always opportunities for every manager to continue to improve, and she suggested one of the opportunities is to create metrics as a tool for management. She discussed the tools that could be developed for the portfolio and monthly reporting.

MS. McDONOUGH highlighted the assets, quickly going through them. Then both responded

to trustee questions.

MS. O'BOYLE stated that a lot of the support material was put in the appendix and added that Harvest Capital is available for any further follow-up. She appreciated the confidence, and thanked all for the opportunity to be there.

CHAIR HALTERMAN thanked both for the work which gives confidence for the decisions the board makes, and added that it was greatly appreciated. She called a break.

(Lunch break.)

CHAIR HALTERMAN called the meeting back to order.

MR. ABBOTT stated that according to the committee charters, the annual agency budgets of both the Trust Land Office and the Trust Authority are to be reviewed by the Finance Committee before they are incorporated into the budget by the Full Board, along with the rest of the budget.

**MOTION:** A motion that the Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees approve the Trust Land Office agency budget for FY23 in the amount of \$4,930,550 was made by TRUSTEE COOKE, seconded by TRUSTEE BOERNER.

MR. MENEFEE gave a high-level overview of the Trust Land Office budget and gave the reasons for some of the changes. He stated that there is an increase which is necessary in bringing in the same levels of revenue or a slight increase in revenues.

CHAIR HALTERMAN asked for any questions. There being none, she called the vote.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Sturgeon, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Halterman, yes.)*

CHAIR HALTERMAN asked for the next motion.

**MOTION:** A motion that the Finance Committee recommends that the Full Board of Trustees approve the FY23 Trust Authority Agency budget of \$4,430,325 was made by Trustee Cooke; seconded by TRUSTEE BOERNER.

CHAIR HALTERMAN recognized Mr. Abbott.

MR. ABBOTT stated that the primary driver of the proposed increase in the agency budget is the additional PERS contribution. He continued that there are no recommendations for any additional personnel, no appreciable changes in the budget lines other than the personal line necessary to meet the new and greater obligations that every state agency will be paying in terms of making their PERS contributions. He added that, other than that, it is a flat budget.

CHAIR HALTERMAN called the vote.



*After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Sturgeon, yes; Trustee Boerner, yes; Trustee Cooke, yes; Trustee Halterman, yes.)*

CHAIR HALTERMAN stated that the next item on the agenda is the Planning Items. She recognized Ms. Howarth.

### **PLANNING ITEMS**

MS. HOWARTH stated that the purpose of this is to set the target allocations among different asset classes. The Permanent Fund and the Department of Revenue are actively involved in the process for management of their funds. She continued that in trying to maintain a sustainable payout they are looking at the mix of assets that will generate a return that is sustainable, that grows faster than inflation, and gives the ability to continue to provide a stable payout for equitable treatment of current and future beneficiaries on a dollar-per-dollar purchasing-power basis. She added that it is an iterative, ongoing process with the constant reallocation and shifting of funds by the asset managers on a monthly basis and, more frequently, quarterly. According to statute, the Trust Land Office manages its asset allocation and development and consults the Trust, but they have full authority and control over that asset base. The Permanent Fund Corporation does their asset allocation overall, and the Trust comes in as a partner and follows that asset allocation. That applies to Trust principal managed there, as well as the reserves, which are managed as a pool. She continued that there is full control with regard to the Department of Revenue managed reserves and the cash assets we have. The Department of Revenue reserves have an allocation that is currently stated in our Asset Management Policy Statement, and we have the authority to shift that, if desired.

MR. ABBOTT stated that as soon as there is clarity of the results of the Legislative Audit, a scope of services will be built, and then we will procure a consultant resource. The hope is that this will be fully complete and in place by the end of the fiscal year.

### **TRUSTEE COMMENTS**

CHAIR HALTERMAN recognized Trustee Fisher.

TRUSTEE FISHER stated appreciation for all the detail that went into the preparation of the last three days; particularly, this financial portion today. He continued that it was great to get an understanding of the definition of terms and all that went into the unique nature of the Trust and its relationship with the State. He thanked the staff for doing a great job.

TRUSTEE STURGEON thanked staff for the great job and for making some complicated things simple to understand.

TRUSTEE BOERNER agreed and stated much appreciation to the staff for all the work in preparing and going through the meetings. She thanked Miri for taking good care of all the trustees, and shared a little mental-health happiness in the beauty of a spider web created in the mist.

TRUSTEE COOKE talked about the last three days and why service on the Trust Authority Board is so interesting and rewarding to trustees. He asked Steve Williams to talk about the tour of various communities on the Yukon River and share his observations from that experience.

MR. WILLIAMS stated that the Tanana Chiefs Conference sponsored a boat trip and invited about 20 folks. We met in Fairbanks, and we were bussed down to Nenana. They were invited to four communities and met with the Chief from each, as well as the Village Council and many community members. Each community pulled together 15-plus members of the community, not including the Tribal Council and the Chief. He continued that it was an opportunity to listen and hear what the concerns and priorities were for each of the communities. The common theme throughout was the impact of the closure of the King fishery and, potentially, the chum fishery, especially on the Yukon, that translated into Nenana because Nenana fishery is impacted by what happens on the Yukon, as well. All four communities were struggling with the fact that there were no fish. The concerns were heard, and all were translated into the work of the Trust. All of those impacts and challenges that can be overcome are not insurmountable, but they are having impacts on the mental health and well-being of the individuals in each of those communities. He talked about the trip being a powerful opportunity.

CHAIR HALTERMAN stated that she continues to hear through social media outlets that care coordinators are still abandoning rural clients because they were unable to get the broadband in order to do the work that they needed to do. Therefore, patients are shifting to caregivers that are more adequately equipped with broadband to service those beneficiaries. She continued, that was troubling because then the cultural needs of communities that are rural are not being addressed. She continued that she was grateful for the amount of work that staff put into the dialogue and discussion. She appreciated having the hired consultants and their advisements. She thanked the trustees for their questions, and Miri for keeping them on task.

**MOTION:** A motion to adjourn was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

*There being no objections, the MOTION was APPROVED.*

(Finance Committee meeting adjourned at 1:36 p.m.)



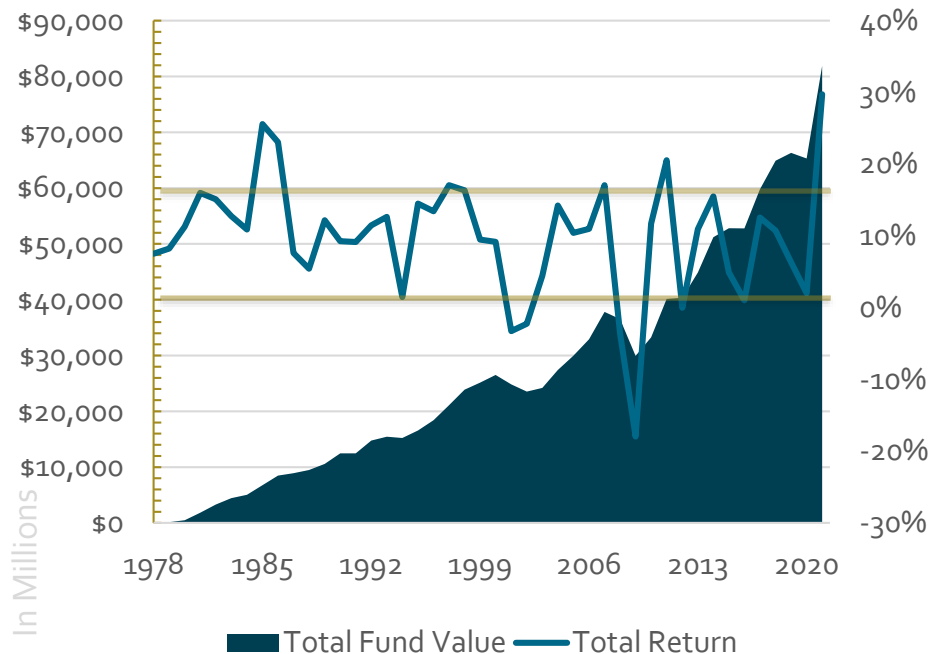
APFC

ALASKA PERMANENT  
FUND CORPORATION

# Alaska Permanent Fund Mental Health Trust Authority

October 21, 2021

# Total Fund Performance

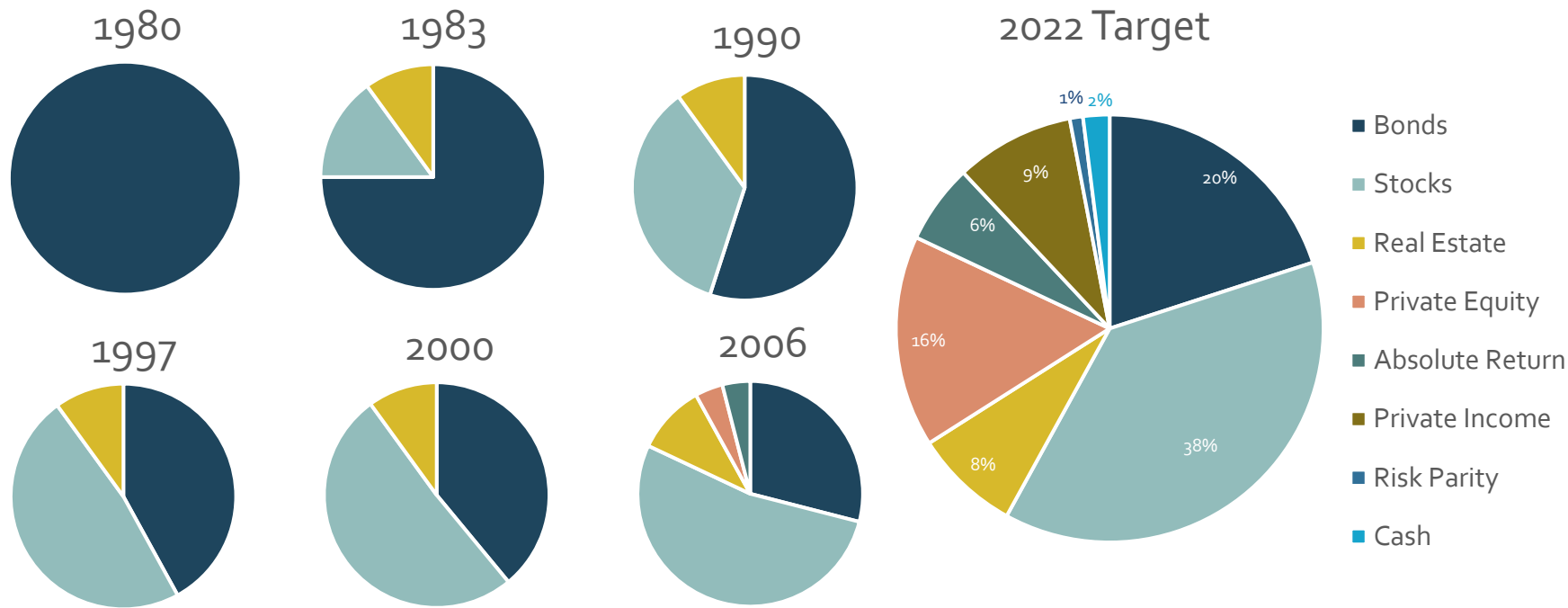


	Total Fund	Passive Index	Performance Benchmark	Objective CPI + 5%
FY20	2.01 %	1.28 %	2.05 %	5.65 %
<b>FY21</b>	<b>29.73%</b>	<b>28.44 %</b>	<b>27.75 %</b>	<b>10.39%</b>
3 Year	12.10 %	11.16%	11.89%	7.55%
5 Year	12.00%	10.31%	11.02%	7.43%
10 Year	9.11%	7.31%	8.37%	6.87%
37 Year	9.12%	n/a	9.21%	7.67%

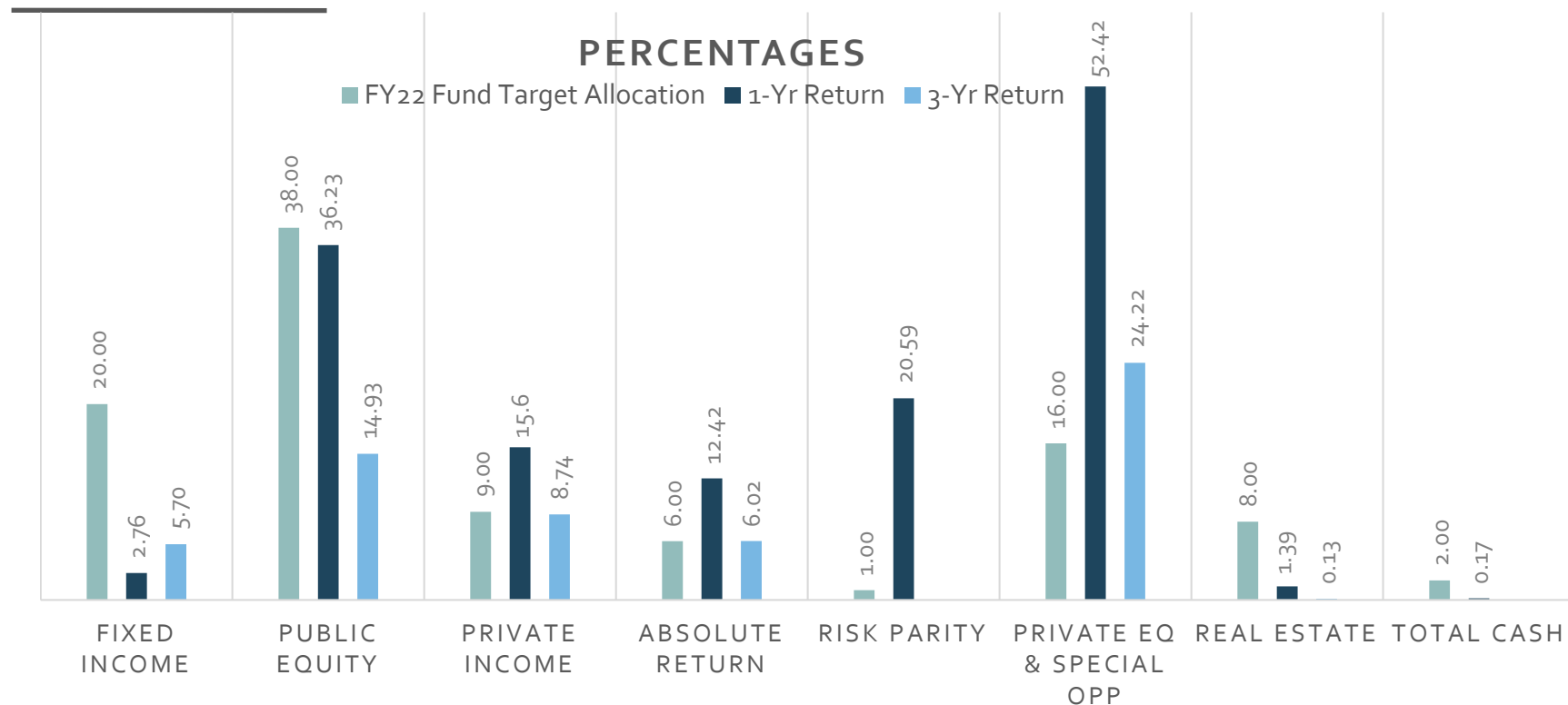
## Value Add over Passive Index

	FY21	3 Year	5 Year	10 Year
Value Add	\$1.1 B	\$1.4 B	\$5.7 B	\$10.4 B

# Asset Allocation

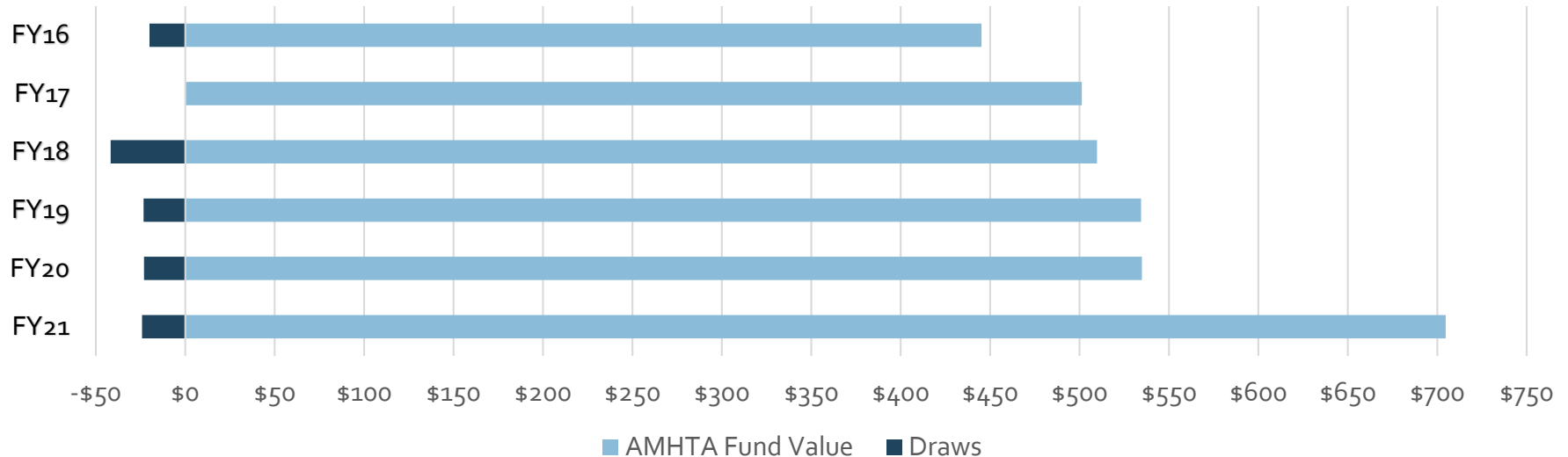


# Asset Allocation and Performance as of August 31, 2021



# Value of the AMHTA Net Investments Managed by APFC

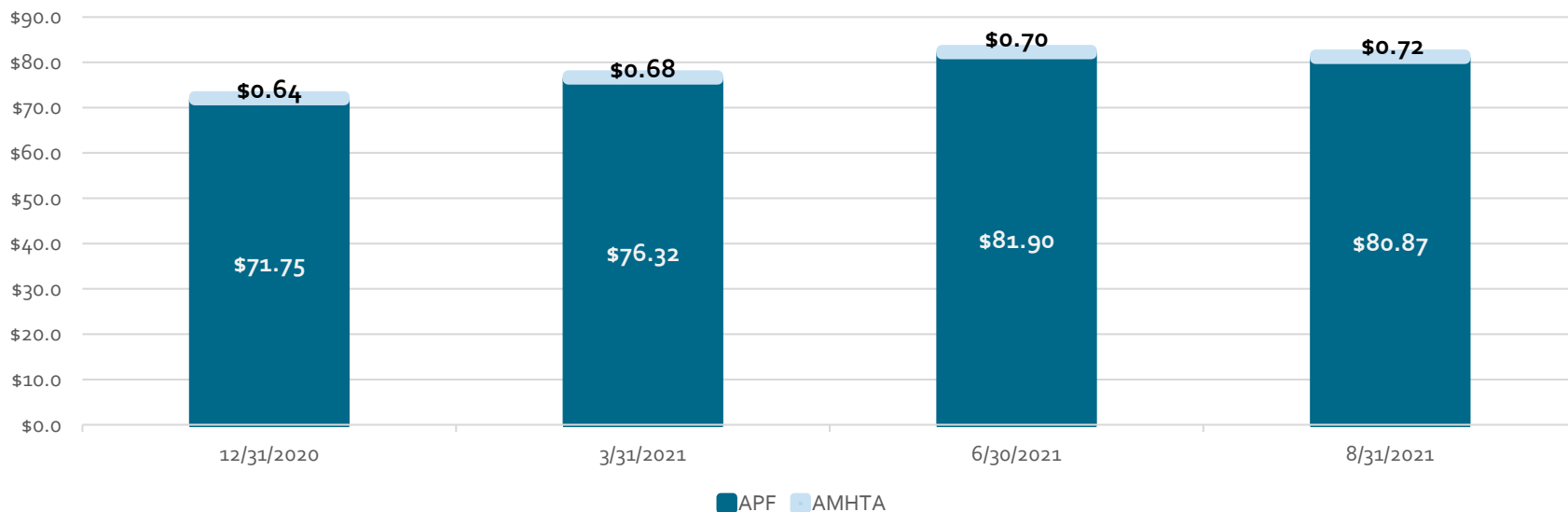
All Values in Millions



FY21 data as of June 30, 2021

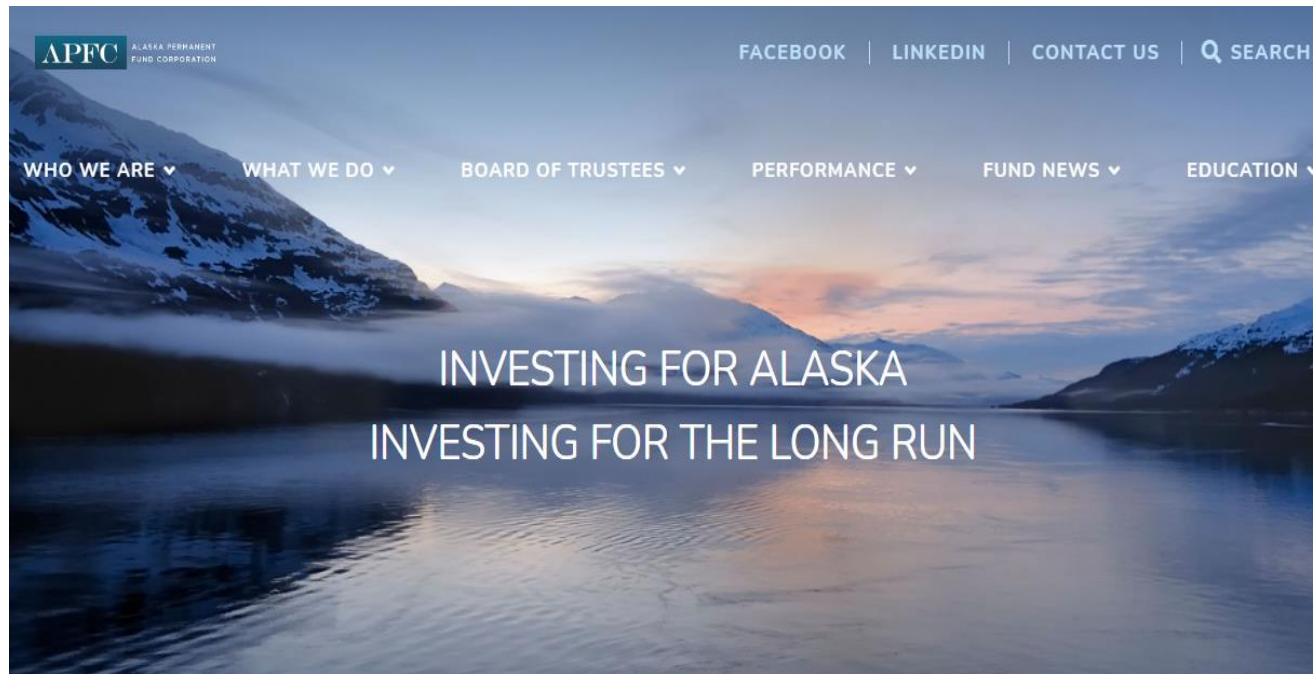
# Total Fund Balance as of August 31, 2021

Value of Total Assets (all values in billions)





# [www.apfc.org](http://www.apfc.org)



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Integrity - Stewardship - Passion



THE STATE  
*of* **ALASKA**  
GOVERNOR MIKE DUNLEAVY

# **Alaska Mental Health Trust**

**October 2021**

**Steve Sikes, CFA**  
**State Investment Officer**  
**State of Alaska, Department of Revenue**

# Department of Revenue – Treasury Division

Treasury functions supporting the Alaska Mental Health Trust:

- Portfolio management is run by 15 investment professionals based in Juneau, Alaska.
- The Treasury Division has an additional 25 professionals in accounting, operations, compliance, and cash management.
- \$51 billion in assets managed as of June 2021:
  - Alaska Retirement Management Board (ARMB): \$42.2 billion
  - Funds under Commissioner of Revenue: \$8.1 billion
  - Other Fiduciaries: \$262 million
- The Division is a resource to help state fiduciaries achieve investment objectives and understand risks.
- Treasury implements investment policy and produces results.



# Alaska Mental Health Trust Assets

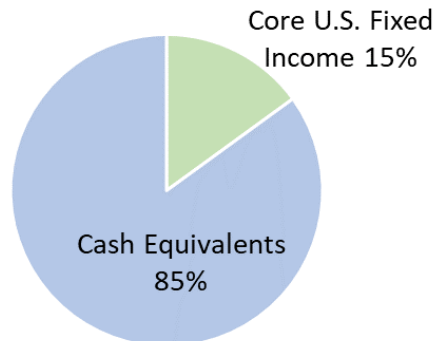
## Asset Management for Alaska Mental Health Trust:

- As of June 30, 2021, Department of Revenue managed \$85.3 million of AMHTA assets:

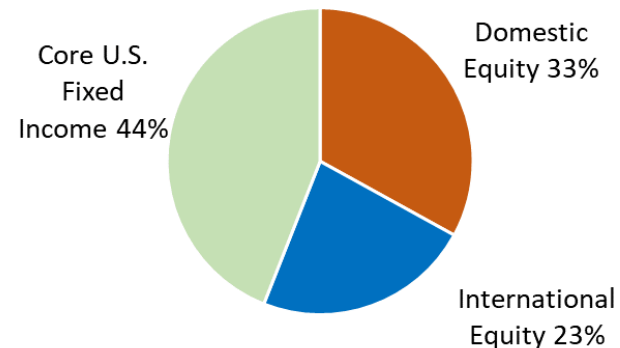
<b>Alaska Mental Health GeFONSI Assets:</b>	
Mental Health Deferred Maintenance	425,511
Mental Health Trust Fund	1,570,310
Mental Health Settlement Account	21,822,421
Total Alaska Mental Health GeFONSI Assets	23,818,242
<b>Alaska Mental Health Trust Reserve</b>	<u>61,447,347</u>
<b>Total AMHTA assets managed by DOR:</b>	<b>\$ 85,265,589</b>

- Current Target Asset Allocations:

**GeFONSI Asset Allocation**



**AMHTR Asset Allocation**



# Alaska Mental Health Trust - GeFONSI

## GeFONSI Investments:

- GeFONSI assets are invested internally by DOR staff.
- GeFONSI asset allocation is recommended by DOR staff and approved by the Commissioner of Revenue annually as of July 1st.
- GeFONSI is designed to be conservative with minimal exposure to principal loss and a high liquidity requirement given the short-term time horizon.
- Returns have exceeded the benchmark but have been low as a result of low interest rates due to U.S. monetary policy.

<b>Performance as of June 30, 2021</b>	<b><u>1 Year</u></b>	<b><u>5 year</u></b>	<b><u>10 year</u></b>
GeFONSI	0.09%	1.38%	1.05%
GeFONSI Benchmark	0.00%	1.22%	0.86%
Difference	0.09%	0.16%	0.19%

# Alaska Mental Health Trust Reserve

## Alaska Mental Health Trust Reserve Investments:

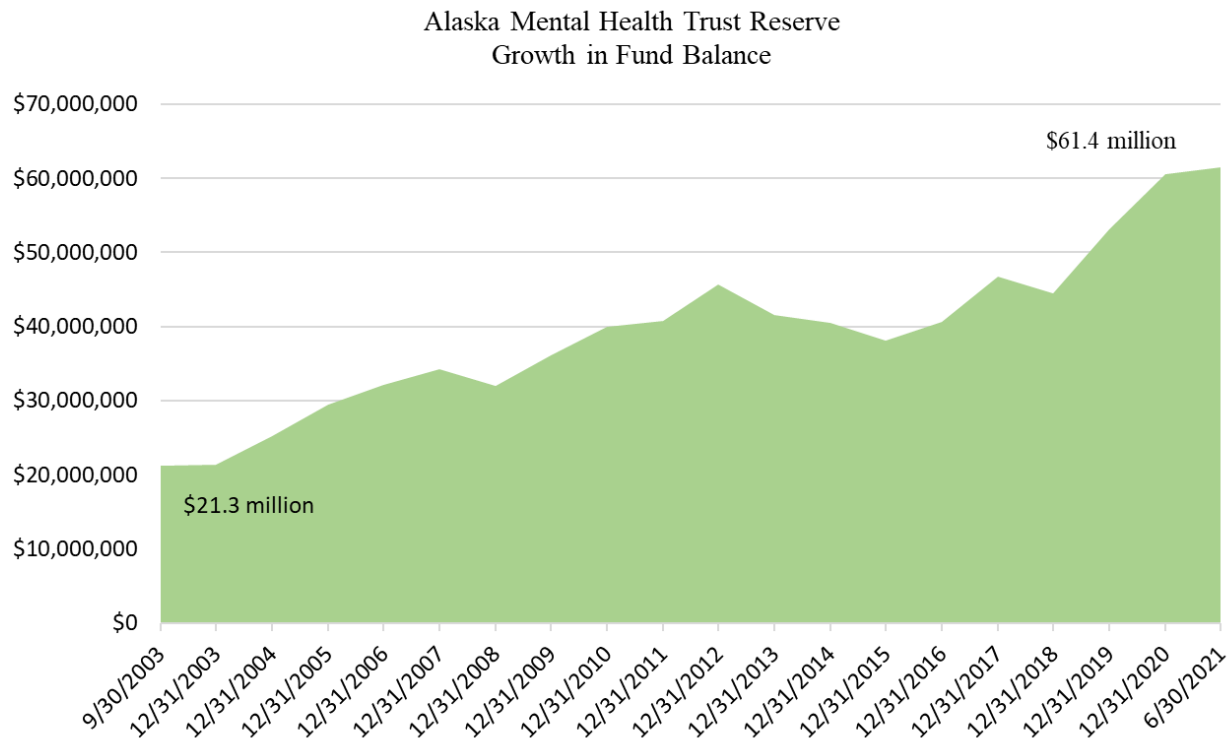
- Alaska Mental Health Trust Reserve assets are invested internally by DOR staff and externally in passive commingled funds managed by State Street Global Advisors.
- The asset allocation is approved by Alaska Mental Health Trust Authority based on the investment policy established in its Asset Management Policy Statement (AMPS).
- The Alaska Mental Health Budget Reserve Fund has a moderate risk tolerance with a medium-term time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth.

<b>Performance as of June 30, 2021</b>	<b><u>1 Year</u></b>	<b><u>5 year</u></b>	<b><u>10 year</u></b>
Alaska Mental Health Trust Reserve	21.36%	10.45%	8.73%
Alaska Mental Health Reserve Benchmark	21.28%	10.38%	8.31%
Difference	0.08%	0.07%	0.42%
Cash Equivalents	0.09%	1.29%	0.82%
Core U.S. Fixed Income	-0.22%	3.21%	3.56%
Domestic Equity	44.05%	17.73%	
International Equity	35.87%	10.84%	

# Alaska Mental Health Trust Reserve

## Change in balance over time:

- Fund balance has grown at a 6.61% annualized rate of return since inception.
- The Alaska Mental Health Trust Reserve has benefited from moving to a more aggressive asset allocation in 2006 to include equity investments.





# Alaska Mental Health Trust Reserve

## Alaska Mental Health Trust Reserve History

- April 2003: Alaska Mental Health Trust Authority (AMHTA) staff met with DOR staff to discuss possibility of Treasury investing some of the trust settlement income account.
- May 2003: AMHTA Board approved motion to invest in DOR Treasury's Intermediate-Term Fixed Income Investment Pool. AMHTA remains fiduciary.
- September 2003: the Alaska Permanent Fund Corporation transferred \$20,963,600 to DOR for investment in the Intermediate-Term Fixed Income Investment Pool.
- August 2006: AMHTA adopted an asset allocation consisting of 30% Broad Market Fixed Income, 45% Domestic Equity Pool, 15% International Equity Pool and 10% Short-Term Fixed Income Pool.
- November 2008: AMHTA adopted an asset allocation consisting of 29% Broad Market Fixed Income, 40% Domestic Equity Pool, 21% International Equity Pool and 10% Short-Term Fixed Income Pool.
- March 2019: AMHTA adopted an asset allocation consisting of 44% Broad Market Fixed Income, 33% Domestic Equity Pool, 23% International Equity Pool and 0% Short-Term Fixed Income Pool.

# Bond and Equity Markets

US Treasury Curve December 31, 2019 vs. September 30, 2021



S&P 500 December 31, 2019 to September 30, 2021



- Interest rates remain at historic lows. The bond market is now pricing in expectations the Fed will begin to taper its bond buying program and begin to raise interest rates. Real interest rates are still negative.
- Interest rates are also low globally but moving out of negative territory.
- Equity markets are still at historically high levels based on continued robust expectations for economic growth from record amounts of fiscal and monetary stimulus.

Government Bonds		
10-year bonds.		
COUPON(%)	COUNTRY	YIELD(%)
1.250	U.S.	1.613
0.000	Germany	-0.148
4.750	U.K.	1.163
0.100	Japan	0.088
1.000	Australia	1.652
3.020	China	2.924
1.500	New Zealand	2.050
0.000	France	0.196
0.600	Italy	0.880
0.500	Spain	0.488

WSJ, 10/8/21

# Jobs, GDP, Inflation

- The US. economy has shown strong signs of recovery with dramatic improvement in the unemployment rate and GDP since the initial onset of the pandemic.
- Inflation risks are now presenting with year over year inflation increases that have not been seen for many years. There is an active debate over whether these price increases are transitory or here to stay. Inflation pressures are presenting across the board – raw materials, wages, shipping, energy, etc.
- Global economies are still being impacted by the stop and start economic lurch of the pandemic. Many logistical supply chains are still impaired which is also contributing to cost pressures.
- The labor market has recovered but not yet to its pre-COVID condition and recent data suggest the labor market may be shrinking which would be a constraint on future economic growth.

U.S. GDP Annualized Quarterly Change Dec 31, 2019 through June 30, 2021

	2Q	1Q	4Q	3Q	2Q	1Q	4Q
Annualized Quarterly Change	2021	2021	2020	2020	2020	2020	2019
GDP	6.7%	6.3%	4.5%	33.8%	-31.2%	-5.1%	1.9%

U.S. Unemployment Rate 2000 through September 30, 2021



Consumer Price Index 2010 through August 31, 2021



# 2011 – Q2 2021 Market Returns

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	C19 5Q	FYTD 2021	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
TIPS	REITs	Broad U.S. Equity	REITs	REITs	High Yield	International Equity	Cash Equivalents	Broad U.S. Equity	Broad U.S. Equity	Broad U.S. Equity	Broad U.S. Equity	Core U.S. Fixed Income	Broad U.S. Equity	Broad U.S. Equity	International Equity	REITs	REITs
13.6%	19.7%	33.6%	28.0%	2.8%	17.1%	27.2%	1.9%	31.0%	20.9%	24.6%	33.2%	3.1%	22.0%	9.2%	17.0%	8.3%	12.0%
REITs	International Equity	International Equity	Broad U.S. Equity	Core U.S. Fixed Income	Broad U.S. Equity	Broad U.S. Equity	Core U.S. Fixed Income	REITs	TIPS	International Equity	International Equity	TIPS	International Equity	International Equity	Broad U.S. Equity	Broad U.S. Equity	Broad U.S. Equity
8.3%	16.8%	15.3%	12.6%	0.5%	12.7%	21.1%	0.0%	28.7%	11.0%	13.4%	28.7%	1.7%	16.1%	6.3%	14.7%	6.3%	8.2%
Core U.S. Fixed Income	Broad U.S. Equity	High Yield	Core U.S. Fixed Income	Broad U.S. Equity	REITs	REITs	TIPS	International Equity	International Equity	REITs	REITs	Cash Equivalents	REITs	High Yield	REITs	International Equity	International Equity
7.8%	16.4%	7.4%	6.0%	0.5%	8.6%	8.7%	(1.3%)	21.5%	10.7%	9.9%	18.5%	0.6%	13.2%	4.6%	8.1%	3.5%	5.5%
High Yield	High Yield	REITs	TIPS	Cash Equivalents	TIPS	High Yield	High Yield	High Yield	Core U.S. Fixed Income	TIPS	High Yield	High Yield	High Yield	TIPS	High Yield	High Yield	TIPS
5.0%	15.8%	2.9%	3.6%	0.1%	4.7%	7.5%	(2.1%)	14.3%	7.5%	8.4%	12.3%	(12.7%)	10.2%	3.0%	6.5%	0.8%	3.2%
Broad U.S. Equity	TIPS	Cash Equivalents	High Yield	TIPS	International Equity	Core U.S. Fixed Income	REITs	Core U.S. Fixed Income	High Yield	High Yield	TIPS	Broad U.S. Equity	TIPS	REITs	TIPS	Cash Equivalents	High Yield
1.0%	7.0%	0.1%	2.5%	(1.4%)	4.5%	3.5%	(4.0%)	8.7%	7.1%	7.2%	3.2%	(20.9%)	4.2%	1.2%	1.6%	0.0%	2.7%
Cash Equivalents	Core U.S. Fixed Income	Core U.S. Fixed Income	Cash Equivalents	High Yield	Core U.S. Fixed Income	TIPS	Broad U.S. Equity	TIPS	Cash Equivalents	Core U.S. Fixed Income	Cash Equivalents	International Equity	Core U.S. Fixed Income	Core U.S. Fixed Income	Core U.S. Fixed Income	TIPS	Core U.S. Fixed Income
0.1%	4.2%	(2.0%)	0.0%	(4.5%)	2.6%	3.0%	(5.2%)	8.4%	0.7%	3.8%	0.1%	(23.4%)	2.9%	0.6%	0.7%	(1.5%)	1.8%
International Equity	Cash Equivalents	TIPS	International Equity	International Equity	Cash Equivalents	Cash Equivalents	International Equity	Cash Equivalents	REITs	Cash Equivalents	Core U.S. Fixed Income	REITs	Cash Equivalents	Cash Equivalents	Cash Equivalents	Core U.S. Fixed Income	Cash Equivalents
(13.7%)	0.1%	(8.6%)	(3.9%)	(5.7%)	0.3%	0.9%	(14.2%)	2.3%	(5.1%)	0.5%	(2.1%)	(23.4%)	0.0%	0.0%	0.0%	(3.4%)	0.0%

# Alaska Mental Health Trust

Asset Management Objectives (AHMTA Investment Policy Statement, August 29, 2019):

## **Liquid Asset Management Objectives**

Specific liquid asset management objectives are to:

- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

# Alaska Mental Health Trust

Guidelines and Investment Policy (AHMTA Investment Policy Statement, August 29, 2019):

## Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. The GeFONSI pool is intended to produce moderate returns with low levels of risk; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following

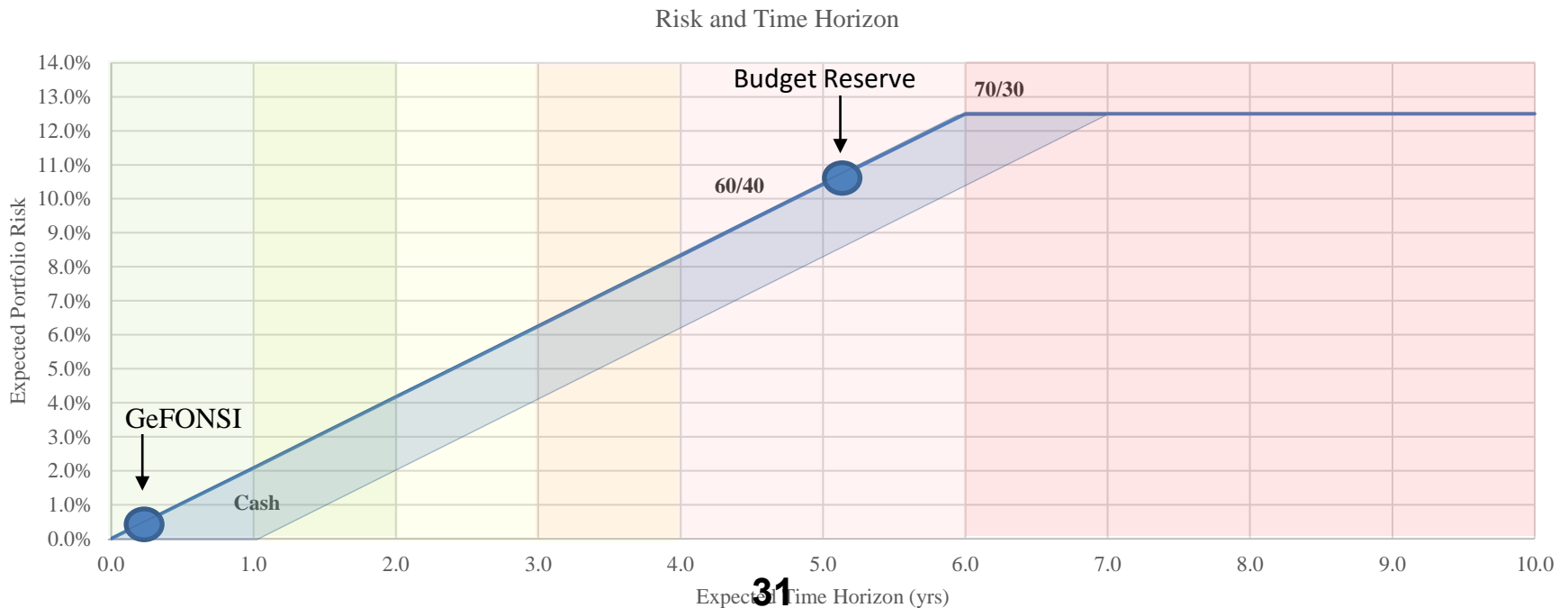
- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth. Investments in this area include:

- Budget Reserves

# Asset Allocation Process

- Setting investment policies and asset allocations are key fiduciary duties.
- DOR staff reviews and makes recommendations on the investment policy and asset allocation of each fund at least annually.
- Each investment program is designed to balance fund investment objectives, risk tolerance, and other attributes:
  - Time horizon
  - Nominal or real return objectives
  - Cashflows, liquidity, and income needs
  - Capacity for loss or volatility over short, medium, and longer time horizons

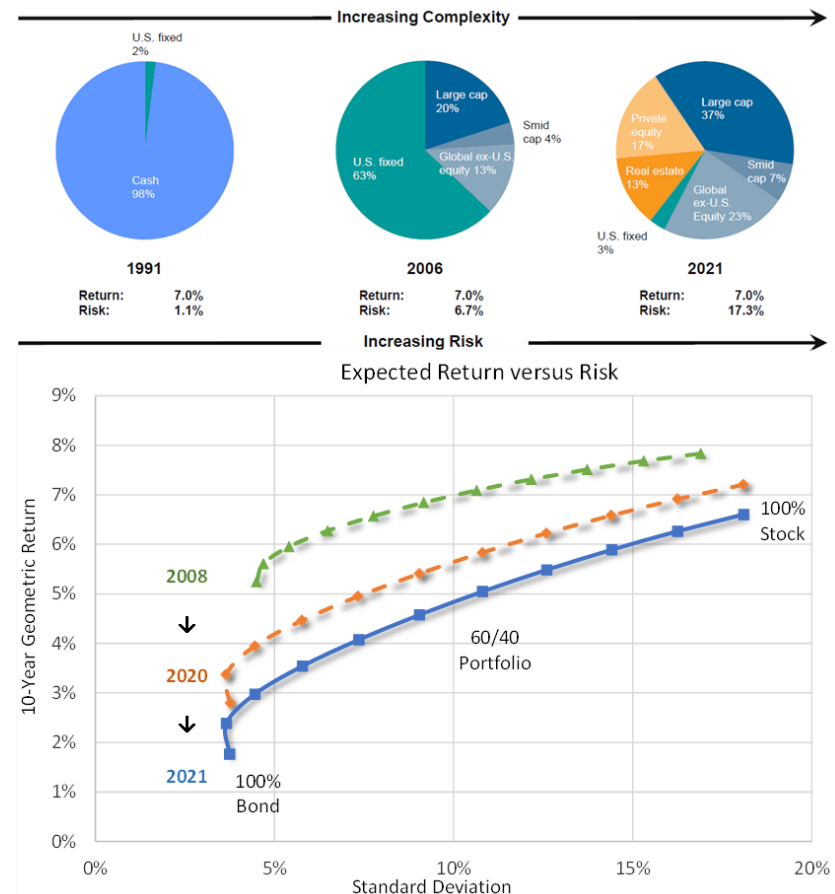


# Asset Allocation

## Asset Allocation Process:

- Financial consultant, Callan LLC, develops annual 10-year capital market assumptions for risk, return, and correlations using a building block approach.
- Return expectations have steadily declined over time due largely to lower growth and inflation expectations caused by global trade, technology, and the transition toward a service economy.
- Staff evaluates Callan's capital market assumptions and current market conditions to develop an asset allocation approach for each State fund.
- The goal is generally to maximize return or minimize risk consistent with investment objectives and risk tolerance using a combination of Modern Portfolio Theory and investment judgment.

### 7% Expected Returns Over Past 30+ Years





# 2021 Capital Market Assumptions

## Capital Market Assumptions:

- Callan provided their 10-year capital market assumptions (CMAs) for 2021. All earnings assumptions decreased this year due to the global pandemic. Risk and correlation assumptions were largely unchanged.
- Staff selects a subset of these asset classes for use in State funds based on risk, return, diversification, complexity, and cost.
- For FY22, staff recommended the continued use of Broad U.S. Equities, International Equities, Core U.S. Fixed Income, and Cash Equivalents for state funds.
- This year, staff added REITs for additional yield and inflation protection and up to 20% of the fixed income allocation is to a tactical bond portfolio that opportunistically invests in high yield, TIPS, and other fixed income asset classes.

Asset Classes	1-Year Arithmetic Return	10-Year Geometric Return	Return Change	Standard Deviation	Projected Yield	Correlation to Domestic Equity	Real Return
<b>Broad U.S. Equity</b>	<b>8.0%</b>	<b>6.6%</b>	<b>-0.55%</b>	<b>18.0%</b>	<b>2.0%</b>	<b>1.00</b>	<b>4.6%</b>
Large Cap U.S. Equity	7.9%	6.5%	-0.50%	17.7%	2.0%	1.00	4.5%
Small/Mid Cap U.S. Equity	8.8%	6.7%	-0.55%	21.3%	1.8%	0.93	4.7%
<b>International Equity</b>	<b>8.7%</b>	<b>6.8%</b>	<b>-0.45%</b>	<b>20.7%</b>	<b>2.8%</b>	<b>0.82</b>	<b>4.8%</b>
Developed ex-U.S. Equity	8.3%	6.5%	-0.50%	19.9%	3.0%	0.78	4.5%
Emerging Market Equity	9.8%	6.9%	-0.35%	25.2%	2.4%	0.80	4.9%
<b>Cash Equivalents</b>	<b>1.0%</b>	<b>1.0%</b>	<b>-1.25%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>-0.06</b>	<b>-1.0%</b>
Government 1-3 year Bonds	1.4%	1.3%	-1.15%	3.5%	1.6%	-0.25	-0.7%
<b>Core U.S. Fixed Income</b>	<b>1.8%</b>	<b>1.8%</b>	<b>-1.00%</b>	<b>3.8%</b>	<b>2.5%</b>	<b>-0.10</b>	<b>-0.3%</b>
TIPS	1.8%	1.7%	-0.70%	5.1%	2.4%	-0.08	-0.3%
Emerging Market Sovereign Debt	3.9%	3.5%	-0.85%	9.5%	6.0%	0.53	1.5%
High Yield	4.9%	4.4%	-0.30%	10.8%	6.7%	0.72	2.4%
Core Real Estate	6.6%	5.8%	-0.50%	14.1%	4.4%	0.71	3.8%
REITs	8.2%	6.3%	-0.45%	20.7%	4.7%	0.80	4.3%
Private Equity	11.5%	8.0%	-0.50%	27.8%	0.0%	0.80	6.0%
Hedge Funds	4.3%	4.0%	-1.00%	8.0%	0.0%	0.78	2.0%
<b>Inflation</b>		<b>2.0%</b>	<b>-0.25%</b>				
<b>60/40 Portfolio</b>		<b>5.0%</b>	<b>-0.79%</b>				

# AMHT DOR Assets FY22 Asset Allocation

- For FY22, the GeFONSI asset allocation was modestly de-risked increasing cash allocation from 77% to 85%. The remaining 15% is invested in core U.S. fixed income.
- Budget Reserve funds are invested based on March 2019 asset allocation. This asset allocation is similar to a 60/40 risk profile and still approximates an efficient mix.
- The risk profile of the Budget Reserve assets is considered “high” based on the expected standard deviation and magnitude of potential loss.

## State of Alaska FY2022 Asset Allocation

Asset Classes	GeFONSI	AMHTR	60/40
Broad U.S. Equity	0%	33%	60%
Global ex-U.S. Equity	0%	23%	0%
US REITS	0%	0%	0%
Core U.S. Fixed Income	15%	44%	40%
Cash Equivalents	85%	0%	0%
Total	100%	100%	100%

## Optimization Results:

<b>Expected Return - Long-Term</b>	<b>1.12%</b>	<b>5.00%</b>	<b>5.04%</b>
Risk - Standard Deviation	0.57%	10.13%	10.72%
Sharpe Ratio	0.21	0.39	0.38

## Risk Statistics:

<b>10% Probable Annual Loss (10% cVaR)</b>	<b>-0.7%</b>	<b>-12.9%</b>	<b>-13.9%</b>
5% Probable Annual Loss (5% cVaR)	-0.9%	-16.0%	-17.2%
Probability of Loss - 1 Year	32.0%	31.5%	32.3%
Prob. Return < -1%	1.3%	28.1%	29.0%
Prob. Return < -2%	0.0%	24.9%	25.9%
Prob. Return < -3%	0.0%	21.9%	23.0%
Prob. Return < -5%	0.0%	16.5%	17.7%
Prob. Return < -10%	0.0%	7.1%	8.2%
Prob. Return < -20%	0.0%	0.7%	1.0%
Probability of Loss - 10 Year	0.0%	5.9%	6.9%

## Dollars: (\$Millions)

Assets	23.8	61.5	61.5
Expected Annual Earnings	0.3	3.1	3.1
10% Probable Annual Loss (10% cVaR)	(0.2)	(7.9)	(8.5)

# Alaska Mental Health Trust

## Summary:

- Investment results have met expectations and are in line with benchmarks.
- DOR will be assisting AMHTA in reviewing the Budget Reserve asset allocation during Fiscal Year 2022.

## Questions?

# Appendix

## Investment returns for quarter ending September 30, 2021:

<b>Performance as of September 30, 2021</b>	<b><u>FYTD</u></b>	<b><u>1 Year</u></b>	<b><u>5 year</u></b>	<b><u>10 year</u></b>
GeFONSI	0.02%	-0.10%	1.36%	0.99%
GeFONSI Benchmark	0.02%	-0.15%	1.21%	0.80%
Difference	0.00%	0.05%	0.15%	0.19%
Alaska Mental Health Trust Reserve	-0.70%	14.88%	9.62%	9.64%
Alaska Mental Health Reserve Benchmark	-0.70%	14.94%	9.50%	9.29%
Difference	0.00%	-0.06%	0.12%	0.35%
Cash Equivalents	0.03%	0.11%	1.25%	0.82%
Core U.S. Fixed Income	0.03%	-0.84%	3.12%	3.18%
Domestic Equity	-0.08%	31.82%	16.73%	
International Equity	-3.00%	24.06%	8.79%	



# Trust

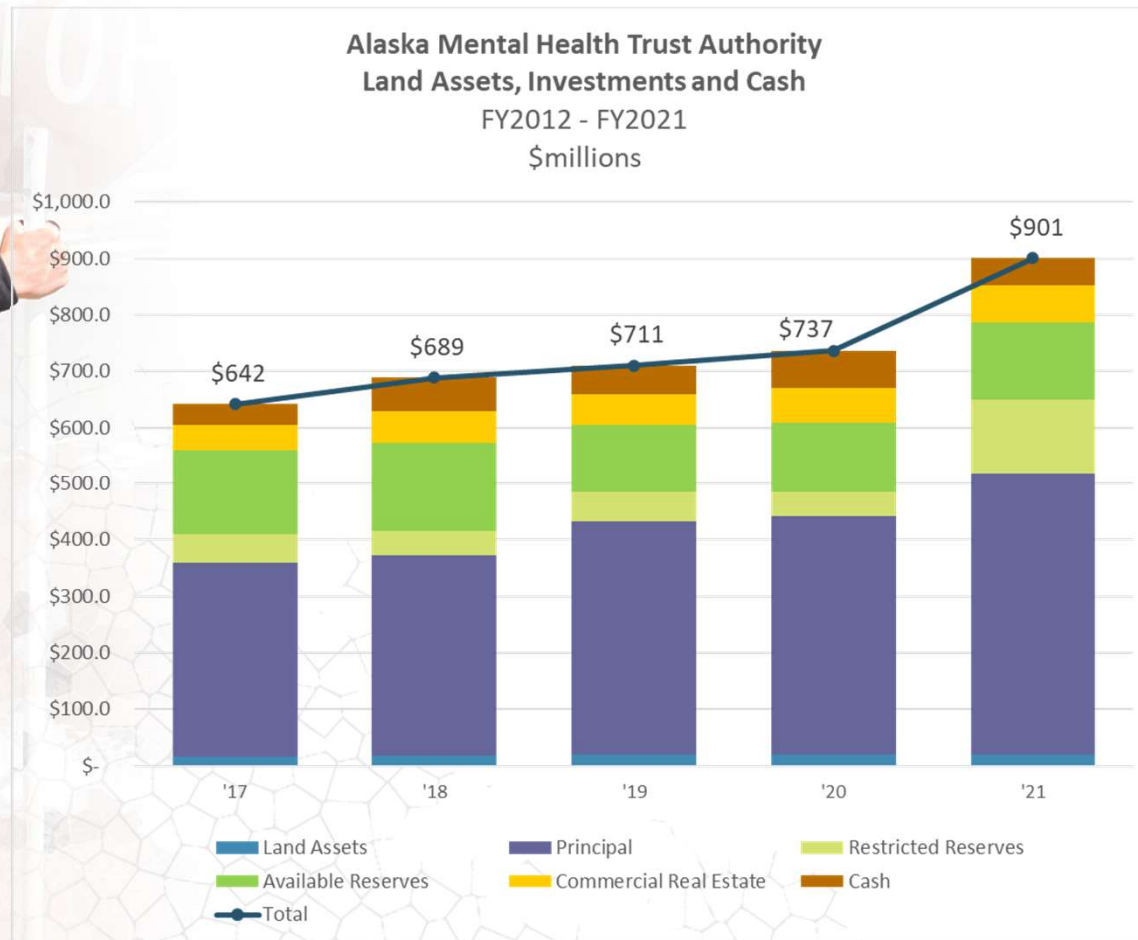
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Alaska Mental Health  
Trust Authority

## Trust Authority FY21 Performance Review

October 21, 2021 Finance Committee

# FY21 ended with record assets under management and available for operations, up 22% from FY20



\$901mm assets, of which \$497mm cash principal and \$21mm land principal

## FY2021 Highlights

\$1mm investments in Land

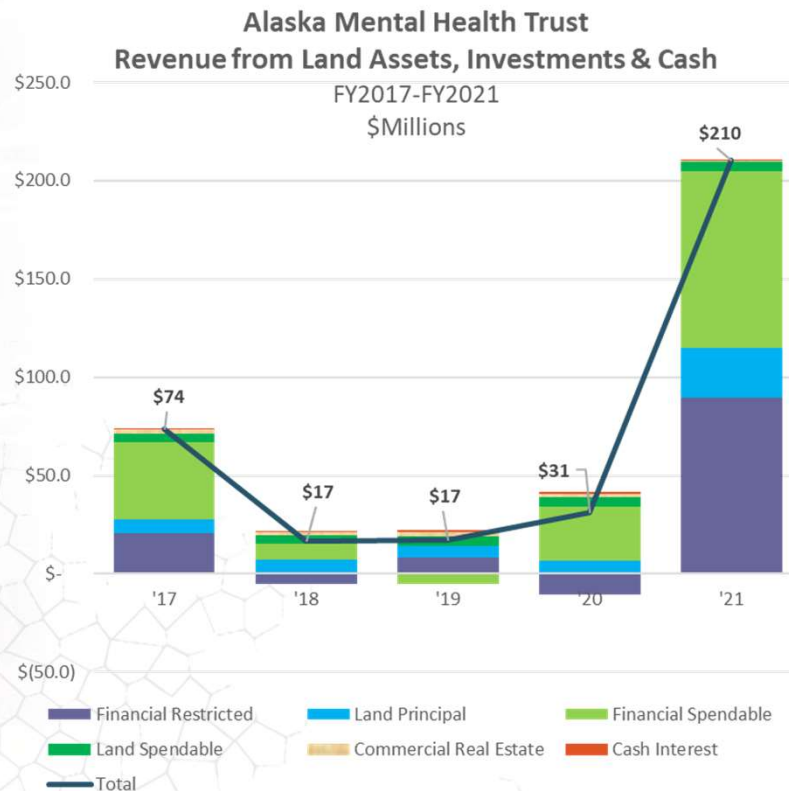
\$76mm transfers to principal

\$179mm financial investment earnings

\$4mm CRE equity gain

\$(18)mm reduction in large cash-on-hand

In FY21, the Trust earned \$185million, growing its net position 25.9% from FY21 levels



Total Revenue of \$215mm, of which \$210mm was from core revenue sources

Expenses of \$30mm offset earnings

### FY2021 Highlights

Revenue:

APFC \$168mm

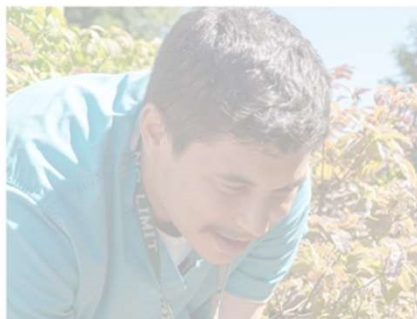
DOR \$11mm

TLO \$30mm

CRE \$1mm

# The Trust's investment managers exceeded targets and benchmarks

Asset Management	Return	Target	Benchmark
APFC Trust & Reserves	29.73%	6.48% mid / 13.89% hi	27.75%
DOR Reserves	21.36%	5.79% initial/5% revised	21.28%
GeFONSI	0.09%	1.18% initial	0%
CRE			
Earnings / Distributions	6.53% / 2.42%		4.08%
Asset Appreciation	2.09%		(1.47)%
TLO Land	4.8% over plan		





## FY21 has a large impact on beneficiary support

- Juneau Subport sale and high DOR and APFC returns were core drivers of a 25% higher fund basis than FY20
- FY22 sees a \$2.4mm increase in payout compared to FY21
- Four-year averaging will carry FY21's superb returns through FY25



# Trustee Comments & Discussion



## MEMO

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** October 12, 2021  
**Re:** Annual payout transfer  
**Fiscal Year:** 2022

### REQUESTED MOTION:

*The Finance Committee recommends that the full board of trustees authorize the transfer of \$26,510,300 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement Income Account to fund the FY2022 annual payout disbursement calculation. The CFO may execute this motion with one lump sum or multiple transfers.*

### BACKGROUND

The Asset Management Policy Statement outlines a spending policy for determining the Trust's annual available funding. A major component of this annual funding is the withdrawal (or "payout") from budget reserves managed by the Alaska Permanent Fund Corporation (APFC). The annual payout disbursement calculation is:

"An annual withdrawal calculation consisting of 4.25 percent of the rolling four year-end average aggregate net asset value (NAV) of the following:

- Principal invested at APFC
- Budget Reserve invested at APFC
- Budget Reserve invested at DOR"

The calculation for the FY22 payout is as follows:

<i>Fiscal Year</i>	<i>FY Ending NAV</i>
2018	556,593,100
2019	584,419,100
2020	587,908,300
2021	766,169,400
Average NAV:	\$ 623,772,500
	<u>x 4.25%</u>
<b>FY2022 Payout disbursement:</b>	<b>\$26,510,300</b>

This requested payout is \$2,353,200 greater than FY2021.

Budget reserves under APFC management are sufficient to support this FY2022 payout.

**To:** Anita Halterman, Finance Committee Chair  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** October 12, 2021  
**Re:** Trust Authority Development Account Transfer

## REQUESTED MOTION #1:

*The Finance Committee recommends the full board of trustees approve setting a target level for Trust Authority Development Account funds at \$1,009,500.*

## REQUESTED MOTION #2:

*The Finance Committee recommends the full board of trustees authorize the Chief Financial Officer to periodically transfer TADA funds that exceed the target level to the Mental Health Trust principal account managed by the Alaska Permanent Fund Corporation.*

### Background

The Trust Authority Development Account (TADA) was established to facilitate reinvestment of principal income into TLO land improvement projects. Trustees annually approve a minimum target TADA balance necessary to maintain adequate capital for completing previously approved TADA-funded work. Funds in excess of the amount required to complete approved projects are transferred to the Trust's APFC-managed principal account.

Three project authorizations utilizing the TADA are still underway:

Project Funding			
Project	Authorized	Expended	Required
USFS Land Exchange	\$3.1 MM	\$2,271,487	\$ 822,507
Icy Cape FY17	2.0 MM	1,975,614	18,332
Icy Cape FY18	3.0 MM	2,830,897	168,620
Total Funding Required			<b>\$1,009,459</b>

Note: Expended funds are as of 8/31/2021

There are no other authorized projects anticipated to require TADA funding.

As of August 31, 2021, TADA held \$2.3 million. This balance will increase as FY2022 principal revenue from rents, royalties and land sales interest is received and deposited into the TADA.

### Recommendation for TADA Funds:

As of this date, the recommended target TADA balance is \$1,009,500.

Funds in excess of the target funding levels shall be regularly transferred to the APFC-managed principal account in compliance with AS 37.14.031 (b) and 20 AAC 40.600.